County of San Diego

DEPARTMENT OF PUBLIC WORKS

JOHN L. SNYDER
DIRECTOR

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July 30, 2004

Mark McClardy
Manager, Airports Division AWP-600
Federal Aviation Administration
Western-Pacific Region
P.O. Box 90027
Los Angeles, CA 90009-2007

Dear Mr. McClardy:

RESPONSE TO COMPLIANCE ADVISORY FOLLOW-UP LETTER

On July 15, 2004, we provided a comprehensive response to your May 17, 2004, compliance advisory follow-up letter. The purpose of this correspondence is to provide you with additional information related to Item 7, which requested:

"The County will adhere to its Airport Leasing Practices and apply a rates and charges methodology to make the airport as self sustaining as possible by adjusting aeronautical rates to more accurately reflect economic and market conditions at its airports.

This letter also provides additional information related to Item 13, which requested:

"The County will provide evidence to confirm that the County will follow its own Airport Leasing Practices and Procedures and avoid below-FMV rental rates in all future leases."

Please review the attached report "Aeronautical Rental Rates at San Diego County Airports". As stated in our letter, this report explains how rates have been set in the past, provides a sample of current lease language and includes information regarding opportunities and methodology to adjust to market rates in the future. This methodology will become a part of the County Airports Policy and Procedures. A draft of the County Policy and Procedures document will be sent to AWP by October 30, 2004.

It is my hope that this information will result in the concerns about this issue being considered closed by AWP. If you have any questions or require additional information contact Airports Program Coordinator Sunny Barrett at (619) 956-4834.

Very truly yours,

PETER DRINKWATER
Director of Airports

PD:LAL:jk

Enclosure: Report - Aeronautical Rental Rates at San Diego County Airports

cc: w/encl.: Larry Watt (0334); Tom Bosworth (A12); Tony Garcia, FAA, AWP-620.1; John Milligan, FAA, AWP-621; File (2)

AERONAUTICAL RENTAL RATES AT SAN DIEGO COUNTY AIRPORTS

Prepared By Lee Ann Lardy

Supervising Real Property Agent

July 30, 2004

Lease Rates and Appraisal Information

Borrego

A February 2000 appraisal by Alan Wilson, MAI, of Alan Wilson & Associates for Borrego Valley Airport aviation land, concluded rent should be $225 per acre per month for ground rent. It also concluded that rent for parcel 84-0351-A, which included a 5,578 sq. ft. hangar building, should be $815 per month (**Attachment 1, Borrego Appraisal 2000).** Current ground rent ranges from between $225 to $283 per acre per month. The hangar building is leased out to four tenants at $300 per hangar per month, for a total of $1,200 for the parcel.

Fallbrook

In July 1998, Alan Wilson, MAI, of Alan Wilson & Associates appraised aviation ground rent for Fallbrook Community Airpark at $300 per acre per month. A January 2001 update by Mr. Wilson revised the rate to $325 per acre per month (**Attachment 2, Fallbrook Appraisal 2001**). Leases that have been negotiated over the last several years range from $300 to $305 per month. An existing lease with Fallbrook Air Service is at $132 per acre per month and will be brought up to market as soon as possible, as addressed later in this report.

Gillespie

Gillespie Aviation rates were last negotiated in 1996. Up until then, leases were renegotiated every 5 years, with 2 or 3 coming due each year. It was difficult to maintain comparable and competitive rates with this method. As part of the negotiation process, the County acquired an appraisal by David J. Yerke, MAI (**Attachment 3, Gillespie Appraisal 1996**) which concluded the rent for vacant land should be $7,500 per acre per year ($625 per acre per month). The County then negotiated with the Gillespie Airport Lessee's Association (GALA) to set a standard rate for all aviation leases at Gillespie Field. GALA conducted its own research and provided a report detailing perceived inaccuracies in the Yerke appraisal (**Attachment 4, GALA Response 1996**).

The County agreed to a rent schedule that set the monthly rent at $400 per acre. The agreement also provided for cost of living increases every 30 months (capped at 3% maximum) based on a CPI index. At the same time lease language was updated to be more favorable to the County regarding Late Rental

Payment, Assigning Subletting and Encumbering, Maneuver area, Disposition of Improvements, Nondiscrimination, Security and Substance Abuse, **(Attachment 5, 1996 Rental Adjustment Board Letter).** All these changes had the desired effect of reducing risk to the County and allowing for improved administration of the leases. This agreement also achieved the goal of getting all Gillespie Field aviation lessees on the same market adjustment schedule, which reduces staff time and appraisal fees and increases fairness by providing a more level playing field. The rate schedule is in effect until 2010, at which time it will be renegotiated to Fair Market Value (FMV) (**Attachment 6, Sample Gillespie Field Rental Clause).** Current rent for Gillespie Field aviation leases is approximately $462 per acre per month.

Palomar

In August 2000, an appraisal by Alan Wilson MAI, of Alan Wilson & Associates, set the McClellan Palomar Airport rent for landfill impacted land at $1,100 per acre per month and non-landfill impacted land at $1,450 per acre per month **(Attachment 7, Palomar Appraisal 2000)**. Since then, all aviation leases at McClellan Palomar Airport have been adjusted to this rate. Additionally, a March 2003 appraisal by Alan Wilson and Associates sets rent for non-landfill impacted land at $1,650 per acre per month **(Attachment 8, Palomar Appraisal 2003)**. Leases that have been negotiated since that date have been at this new higher rate. Because cost of living increases become effective at different times, the result is a range for non-landfill impacted land of between $1,450 to $1,690 per acre per month. Landfill impacted land remains $1,100 per acre per month and all leases on this type of land are between $1,100 and $1,125 per acre per month.

Ramona

An August 2000 appraisal by Alan Wilson, MAI, of Alan Wilson & Associates set aviation ground rent for Ramona Airport at $675 per acre per month **(Attachment 9, Ramona Appraisal 2000)**. All three existing FBO's were due for negotiated rent adjustments and were at approximately $205 per acre per month. It was determined that an increase of this size would be a hardship to the established businesses. Therefore, it was decided that the rent would be stepped up to $625 over a 5 year period. Rental rates currently range between $392 and $435 per acre per month and are scheduled to be at $675 per acre per month in approximately 2 years.

Current Lease Negotiations

The sample rental adjustment clause from the County standard lease form is included as an attachment to this report. **(Attachment 10, Sample Rental Adjustment Clause from County Standard Lease Form).**

In addition, some leases for existing tenants at Gillespie Field have been reissued with new 30 year leases by meeting all guidelines detailed in the San Diego County Leasing Practices **(Attachment 11, San Diego County Airports Leasing Practices).** These guidelines include required capital improvement projects and payment to the County for the postponement of its reversionary interest in the leasehold improvements. In these situations existing tenants have been allowed to stay with this schedule until 2010 in order to maintain a level playing field. This allows established businesses to continue while providing additional capital improvements to supply needed aircraft facilities as well as additional cash to be used for Airport Enterprise Fund expenses.

Future Rental Rate Adjustment Opportunities

Borrego

Borrego rents are at or above FMV. Future negotiated rental adjustments take place in 2005 though 2009. These adjustments will either be based on appraisal or, because the cost of appraisal may not be covered by anticipated additional revenue, estimated using the last appraisal and Consumer Price Index (CPI). The hangar leases are for one year terms and terminate approximately October 2004. They will be offered for renewal at rates adjusted based on the CPI.

Fallbrook

Fallbrook Community Airpark aviation leases are mostly at FMV, ranging between $300 and $325 per acre per month. An existing lease with Fallbrook Air Service is below market at $132 per acre per month. The lease provides for annual cost of living increases with market adjustments every five years. This lease is overdue to be brought up to market and will be adjusted as soon as soon as possible using the 2001 appraisal. The next round of negotiated rental adjustments will be from 2007 to 2012 and the County will get an updated appraisal six to twelve months in advance of the next adjustment and use that for the basis to propose a new rate.

Gillespie

In 2010 the current Gillespie Field Aviation leases are all scheduled for negotiated adjustments. The County will conduct a new appraisal six to twelve months in advance of the first adjustment. An appraisal by Mr. Wilson in March of 2003 concluded ground rent for Gillespie Field Aviation leases would be $1,100 per acre per month. This rate has yet to be used at Gillespie Field. In August 2005 the current long term lease on the Cajon Air Center parcel will terminate. Additional time may be needed for environmental work before it is ready to develop and the County conducts Requests for Proposals for aviation development. There is a significant amount of interest in this property and it is anticipated that proposals will be at FMV and will help to establish a new aviation rate in advance of the 2010 negotiations.

Leases with existing tenants that are in compliance with current use requirements and building restriction lines still qualify to be reissued at the current schedule through 2010 and adjust to FMV at that time. All capital improvement and equity payment requirements must be met to qualify for a new lease.

Palomar

Palomar Aviation rates are all at FMV. The next rental adjustments will be between 2006 and 2009. The County will get an updated appraisal six to twelve months in advance of the next adjustment and use that for the basis to propose a new rate. The County recently renegotiated a new 30 year lease with Magellan Aviation and used the March 2003 appraisal, adjusted by CPI, to establish the new rate of $1,678.87.

Ramona

By June 2006, all FBO's at Ramona Airport will be at $675 per acre per year, which is FMV based on the September 2000 appraisal. However, there have been many improvements at Ramona Airport and a new appraisal may show another substantial increase. Negotiated adjustments are due again in November 2006 through August 2007. Additionally, the California Department of Forestry (CDF) has a facility at Ramona Airport. A new lease was negotiated with CDF prior to the August 2000 appraisal and was based on the previous standard rate of $200 per acre per month. The agreement provided for landing fees and cost of living increases. It is currently at approximately $232 per acre per month. The agreement does not include any negotiated rental adjustments but includes a cola adjustment based on CPI with a cap of 25%. The County will try to bring this lease to FMV at the first available opportunity.

The attached list of County Airports Aviation Agreements **(Attachment 12, County Airports Aviation Agreements)** includes the current termination dates, next negotiated rental adjustments, current monthly rent and current rental rate per acre per month.

In order to clarify the procedures for negotiated rental adjustments, guidelines for implementation will be included in the Rules and Regulations that are currently being developed by Sherry Miller, Principal Airport Manager. A draft of the County Airports Rules and Regulations will be sent to AWP by October 30, 2004 for your review.

Attachments:
Attachment 1, Borrego Appraisal 2000
Attachment 2, Fallbrook Appraisal 2001
Attachment 3, Gillespie Appraisal 1996
Attachment 4, GALA Response 1996
Attachment 5, 1996 Rental Adjustment Board Letter
Attachment 6, Sample Gillespie Field Rental Clause

Attachment 7, Palomar Appraisal 2000
Attachment 8, Palomar Appraisal 2003
Attachment 9, Ramona Appraisal 2000
Attachment 10, Sample Rental Adjustment Clause from County Standard Lease Form
Attachment 11, San Diego County Airports Leasing Practices
Attachment 12, County Airports Aviation Agreements

ALAN M. WILSON & ASSOCIATES

Real Estate Appraisers and Consultants

Attachment 1: Borrego Appraisal 2000

February 21, 2000

Mr. Quentin Arvin
Acting Appraisal Manager
COUNTY OF SAN DIEGO
Department of General Services
Real Property Division
5555 Overland Avenue, Building 2, Room 110
San Diego, CA 92123

Dear Mr. Arvin:

In accordance with your request, a study has been undertaken for the purpose of estimating market rent for a typical ground-leased parcel at the Borrego Valley Airport as of February 9, 2000. Additionally, market rent was estimated for a 5,578-square-foot, four-bay hangar on a .273-acre parcel at the airport (Lease Parcel 84-0351-A).

Based on analysis of recent market activity, it is concluded that the market rent of a typical ground-leased parcel at the Borrego Valley Airport as of February 9, 2000 was:

*** $225 PER ACRE PER MONTH ***

Based on analysis of recent market activity, it is concluded that the market rent of Lease Parcel No. 84-0351-A, including a 5,578-square-foot hangar and associated land at the Borrego Valley Airport as of February 9, 2000 was:

*** $815 PER MONTH ***

The market rent conclusions reflect certain assumptions which are listed in the body of this report. Special assumptions reflected in the market rent estimates include the assumption that the typical ground leased parcel would benefit from improved taxiway and vehicular access, that the site is graded level, and that water and electric utilities are "stubbed" to the parcel. Both market rental estimates reflect the assumption of a triple net expense basis in which the tenant would be responsible for all operating expenses.

The estimated market ground rent does **not** contemplate any particular capital investment requirements on the part of the tenant. It **does** however, reflect the assumption of a reversion clause in the lease which would give the County the right of ownership in any leasehold improvements at the expiration of the lease.

12315 OAK KNOLL ROAD, SUITE 220, POWAY, CALIFORNIA 92064
TELEPHONES: (858) 486-3350; FAX (619) 486-8350

To the extent that any of the assumptions made during the course of the assignment prove inappropriate or erroneous, the estimates of market rent are subject to error. For that reason, the reader is strongly urged to review **all** of the assumptions and limiting conditions under which this study was prepared.

The results of this study are presented in a summary report. As a summary report, this document is intended to comply with the Uniform Standards of Professional Appraisal Practice's Standards Rule 5-2 which governs the reporting requirements of a consulting service. This letter of transmittal is only a part of the summary report which follows. For a brief summary of findings, please refer to the Summary of Important Facts and Conclusions on page 1 of the report.

The intended use of this report is to assist the County of San Diego in preparing an Request For Proposals to lease land and improvements at the airport and for negotiating a ground rent adjustment to an existing lease. No other use of the report is authorized without the written consent of the analyst.

Thank you for this opportunity to be of service.

Respectfully submitted,

Alan M. Wilson

Alan M. Wilson, MAI
State Certification No. AG006308
Exp. 4/13/02

RESTRICTED APPRAISAL REPORT

The information contained in this report is specific to the needs of the client named below and for the intended use stated below. The appraiser is not responsible for unauthorized use of this report.

APPRAISER:

Alan M. Wilson, MAI
Principal Appraiser - Alan M. Wilson & Associates
12315 Oak Knoll Road, Suite 220
Poway, California 92064

CLIENT:

Mr. Quentin Arvin
Chief Appraiser
COUNTY OF SAN DIEGO
Department of General Services
Real Property Division
5555 Overland Avenue, Building 2, Room 110
San Diego, CA 92123

INTENDED USE OF REPORT:

For the County of San Diego's sole use in connection with negotiating ground leases at Fallbrook Air Park.

PURPOSE OF THE APPRAISAL:

The purpose of this appraisal was to estimate market rent. Market rent is defined as:

"the rental income that a property would most probably command in the open market; indicated by the current rents paid and asked for comparable space as of the date of the appraisal."

(Source: Dictionary of Real Estate Appraisal; Third Edition, page 221)

INTEREST VALUED:

Leased fee

EFFECTIVE DATE OF VALUE:

The effective date of value is January 8, 2001.

DATE OF REPORT:

The date of this report is January 9, 2001.

APPRAISAL DEVELOPMENT AND REPORTING PROCESS (SCOPE OF THE APPRAISAL):

This is a complete appraisal presented in a restricted report format. The scope of this assignment included: identification of a "typical" aviation-restricted parcel at Fallbrook Air Park; a field inspection of the subject airport and of some of the comparable data used in the analyses; inspection of the surrounding neighborhood; research and investigation of current market conditions relative to the property type appraised as well as the market sector within which the subject would compete; interviews with airport managers and leasing agents, appraisers, tenants, and representatives from relevant public agencies or governing bodies; a search for market data similar in highest and best use to the subject property; and confirmation and analysis of recent aviation-restricted leases at competitive airports.

To develop the opinions of value, the appraiser performed a complete appraisal process, as defined by the Uniform Standards of Professional Appraisal Practice. This means that no departures from Standard 1 were invoked. This Restricted Appraisal Report sets forth only the appraiser's conclusion of market rent. Supporting documentation is retained in the appraiser's file.

SUBJECT PROPERTY IDENTIFICATION:

As identified in the original appraisal, Real Property Parcel 21 was selected as the representative "typical" lot for the Fallbrook Air Park based on its size, shape, location, access and utility. It is a 4.467-acre parcel. For purposes of this assignment the lot is assumed to be level, vacant and awaiting improvement to its highest and best use. A complete legal description of this parcel was not available as of the date of the assignment.

HIGHEST AND BEST USE:

The subject lot is assumed to be vacant, awaiting development to its highest and best use. In this case, the lot's highest and best use is concluded to be for immediate development with aviation-restricted uses in accordance with the use restrictions appearing in the specimen lease provided during the course of the original appraisal.

ANALYSES AND CONCLUSIONS:

In order to estimate market ground rent for the subject aviation-restricted parcel, a number of airports were surveyed for the purpose of gaining information on recent ground lease transactions. With most property types, direct comparisons between competitive properties and the subject can be made. Through the process of comparison, superior and inferior properties can usually be identified. The process of direct comparison does not lend itself as well to the estimate of market ground rent for airport land as well as it does for more conventional property types. This is because each airport is unique. Rating them as "superior" or "inferior" to the subject involves more subjectivity than for other property types. Ideally, every airport fills a distinct niche in its regional aviation market. For comparison purposes, information from airports that fill a similar niche to Fallbrook Air Park were particularly helpful. In spite of its shortcomings, direct comparison is regarded as the most appropriate method to use for the purpose of estimating market ground rent.

In selecting potential comparable airports, the most important criteria were location, the presence or absence of a control tower, the number of annual operations, the number of based aircraft and their type, the presence or absence of commuter air carrier traffic, the inventory of available land at the airport, and the airports' "reason for being", i.e., the type of market that the airports appeal to. Fallbrook Air Park is a non-towered, general aviation airport in a semi-rural setting, but on the fringe of a major metropolitan area. It has very limited potential for future physical expansion of its boundaries, but it does have some vacant land within its boundaries upon which new aviation-related improvements could be accommodated.

The original search for comparable data was concentrated in southern California. However, there were insufficient data from that particular sub-market from which to form a supportable conclusion of market ground rent. As a result, the geographic parameter of the search was expanded into a regional effort. Market information from northern California, as well as Nevada and Arizona, were also considered. An attempt was made to locate recent ground lease transactions that were openly negotiated by lessor and lessee. Every effort was made to avoid using "policy" rents that are applied simply because "those are rates that have always been charged", or because "that's what the city council wants to charge". In a few instances the rents shown in the table reflect policy rents. However, they were relied upon to a much lesser extent than the openly negotiated rents in arriving at an estimate of market rent for the "typical" aviation-restricted parcel at Fallbrook Air Park.

Ordinarily, in estimating market rent for aviation-restricted land, the most desirable comparable rental data would come from the most proximate and physically similar airports to the subject. However, in this case, the analyst has elected to obtain the comparable data mostly from airports in other areas. The reason for this is that, during the research for this assignment, the analyst found that most of San Diego County's airports (including those operated by the City of San Diego) have historically been leased at rates that reflect a "policy" decision rather than at rates which result from open negotiation or the competitive bid process. The result has been that most of San Diego County's airports are leased at ground rents that are lower than found at similar facilities in other jurisdictions. Since it is necessary for valuation purposes to estimate market rent, market data from the local airports were largely considered to be inappropriate.

Particular attention was paid to subtleties in the leases that may have impacted base rental rates. These include the length of the lease terms, the reversion clauses, the physical condition of the parcel at the time of the lease, and the parcels' locations relative to others on the field. In addition, supply and demand factors for other types of airport real estate (hangars and tiedowns) were also considered to get a feel for the condition of the comparable airports' economies. Rents for tiedowns and hangars also help to rate the airport as "superior" or "inferior" to the subject.

The theory behind direct comparison is that more desirable properties than the subject will generate higher rents. Conversely, the subject should be able to generate higher rents than inferior properties. In this way, the subject's market ground rent can be bracketed. The data sample generated for this task was sufficient to form such a bracket. (In reality, there are no "superior" or "inferior" airports because they all serve specific purposes in the aviation market. The rents being achieved at any given airport simply reflect the interaction of supply and demand as do the rents for any other type of real estate.)

Conclusion

Based on the appraiser's analysis of the ground leasing activity at competitive airports, it is the appraiser's opinion that market rent for a typical aviation-restricted parcel of land at Fallbrook Air Park as of January 8, 2001 was $325 per acre, per month, on a triple net expense basis. The estimated market ground rent reflects a level, ready-to-build, aviation-restricted site with immediate taxiway access, and public utilities stubbed to the site's boundaries. The concluded market rent represents an 8.33 percent increase over the $300 per acre, per month, figure concluded in our original July, 1998 appraisal, slightly over three percent annually.

DAVID J. YERKE, INC.
REAL ESTATE APPRAISAL AND CONSULTING
BANK OF AMERICA PROFESSIONAL CENTER
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FAX (619) 698-2039

March 1, 1996

THE COUNTY OF SAN DIEGO
Department of Public Works, Division of Airports
5555 Overland Avenue
San Diego, California 92123-1295

Attn: Mr. James Healy

Re: Appraisal of Market Rent for Gillespie Field Airport

In accordance with your request and your letter of authorization, I have completed my study and analysis in connection with the above-referenced appraisal of Market Rent for the leasehold properties at Gillespie Field airport.

It is understood that the purpose of the appraisal is to establish the Market Rent as a basis for negotiation, pursuant to various lease provisions contained within individual leases executed between the County of San Diego and the various tenants of Gillespie Field.

The appraisal, however, does not include specific leasehold valuations or analysis. The airport is considered as though vacant land with all its appurtenant facilities and no structures are valued as part of the appraisal of Market Rent as they are considered leasehold improvements. They will revert to the County upon the expiration of the ground leases.

The report is prepared with the intent to comply with the Uniform Standards of Professional Appraisal Practice as set forth by the Appraisal Foundation, the Code of Ethics and Standards of Practice of the Appraisal Institute as well as the regulations set forth by the Office of Real Estate Appraisal, State of California.

Attention is directed to the Table of Contents which displays the location of pertinent factual information and the Summary of Salient Facts and Conclusions which summarizes the conclusions of Market Rent. This letter and the contents thereof are included as part of the appraisal.

In addition to the following Summary, other conclusions reached are as follows

- *The concluded ground rent is found at $7,500 per acre, per year.*
- *The maximum yearly adjustment should be from 5% to 8%.*
- *Minimum annual adjustment with 5th year cyclical market review is recommended.*
- *Percentage rent application is not recommended for Gillespie Field.*
- *Gallonage assessment at $.04 to $.06 per gallon is recommended.*

The pages which follow generally discuss the environs of the subject together with background information which was considered useful and pertinent to the analysis. Portrayals of general aviation regional information are omitted as the users of the report are assumed to be cognizant of the factors which depict the San Diego regional economy. In place of that feature, the report focuses on national, regional and district aviation concerns which pertain to the submarket of the subject property.

Details concerning the supporting market information are contained in the Addenda section at the end of the report. Individual tables are also found within the report which provide informational summaries of the various data items collected during research. Additionally, a subject aerial photograph and mapping is displayed in the Addenda.

The analysis of real estate data and the conclusions drawn from such analysis require the formation of a number of assumptions and the conclusions to these assummptions are limited by a number of conditions. For ease of reference, the major general assumptions are grouped together and can be found in the Introduction. There are numerous assumptions required for analysis and are critical to the study. These may also be found within the Assumptions and Limiting Conditions section of the report.

Specific text material which may be referenced as needed is retained in-file. Also, some of the information gathered in the process of investigation was requested by its author or source to remain confidential or was found to be proprietary in nature and therefore subject to disclosure restrictions. Other sources of confidential or supportive information are retained in the appraiser's file.

Respectfully submitted,

David J. Yerke

David J. Yerke, MAI
State Certified General Real Estate Appraiser #AG009110

Attachment 4: GALA Response 1996

FINDINGS AND JUSTIFICATION FOR RATES AND RULES

GALA

Gillespie Air[...]e's Association

1905 North Marshall Avenue, El Cajon, California 92020 • (619) 448-2360

Presentation outline
Gillespie Field Development Council
July 15, 1996

1. Industry has been declining since 1980 and will continue to do so.

a. 100,000 student starts are required to sustain the current level of activity in General Aviation. 1994 had 60,000 student starts. see graph

b. New aircraft production declined from 14,000 aircraft in 1978 to 554 aircraft in 1994. See graph

c. The # of FBO's nationally has declined from 10,000 to 4,000. pg 18

d. Aircraft based in San Diego have declined from 5,000 to 2,451. pg 25

e. The number of Private pilots has declined 11%

f. Yerky agrees except that he notes that FAA forecasts "moderate growth" FAA has incorrectly forecast moderate growth for each of the last five years.

g. All land values and rents on all property surrounding Gillespie have declined in the last 5 years.

2. Some assumptions in the appraisal were faulty

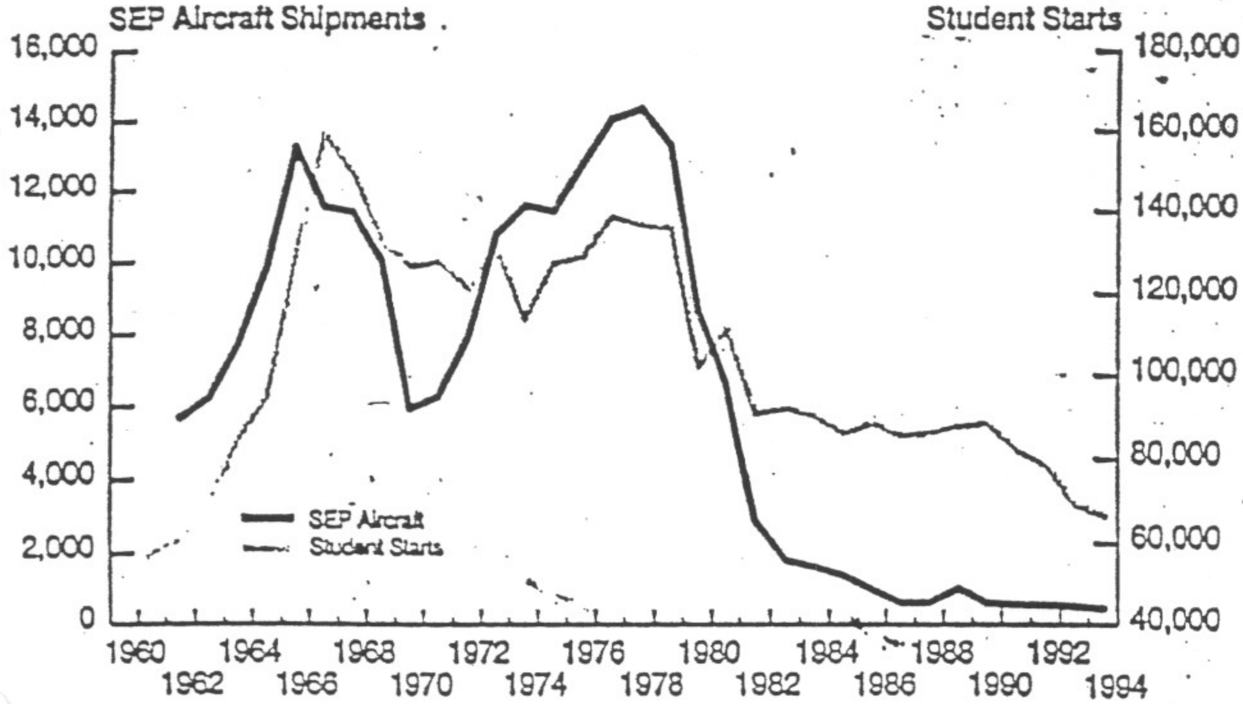
a. Assumed that LA is comparable/competitive to San Diego

b. Assumed that General aviation will sustain moderate growth

c. Assumed that Montgomery is "similar" and Brown is "inferior"

d. Assumed that all airports have minimum development standards which are enforced.

Figure 11:
STUDENT STARTS AND SINGLE-ENGINE PISTON AIRCRAFT SHIPMENTS



Source: GAMA and FAA

Final Report of the
General Aviation Manufacturers Association
Piston Engine Aircraft
Revitalization Committee

JAN. 1996

3. <u>Most imputs used in the appraisal were faulty</u>

a. He was apparently unaware of two new leases signed at MYF within the last few months and one new lease at Brown Field

b. The imputs compared rent for <u>improved</u> ground with our rent for <u>unimproved</u> ground.

c. The appraisal relied on a 1993-94 survey conducted by the American Association of Airport Executives. <u>No attempt was made to update or verify the data.</u> Actual numbers are totally different from the numbers used in the appraisal for Table XV pg. 58

d. If the imputs are incorrect, <u>the conclusions are incorrect.</u>

e. <u>The valuation section of the appraisal cannot be relied on.</u>

4. <u>Our only real competition comes from Montgomery, Brown and Ramona</u> with a little bit from Palomar.

a. If you owned a plane on Gillespie and your hangar rent was increased from $250 to $350, where would you go?

b. The criteria for "comparable airports" was limited to aircraft population and aircraft traffic count. A Lear Jet does not equal a J-3. see chart.

   1) Montgomery is superior (Plus One Flying Club, Calif Wings), Brown is slightly inferior, Ramona is inferior and Palomar is vastly superior.

c. Montgomery is our primary competition

   1) City mgt. recently adopted a new fixed rent policy of $700 per acre for the first ten acres, then $600 per acre. This is an "ASKING" price.

   2) The city has just signed leases with Coast Aircraft for $500 per acre and Crown Air for $625 per acre for <u>improved ground.</u>

   3.) If you adjust out the value of the asphalt improvements you get <u>$235 to $360</u> per month rent for unimproved ground.

      (a) asphalt cost $40,000 per acre less deferred maintenance of $15,000 @ 10% (prime plus 2) amortized over 15 years is $265 per month)

	Number of Based aircraft	Operations per FAA count	Fuel sold in gallons	Aver based plane value *	operations per based plane	Aver nearby house value *	Ground rent acre/per month	aver hangar rer PSF/Mo *
Montgomery	545	230000	1.5 million	40000	421	170000	235 to 360	.33 cents
Gillespie	858	190000	.5 million	20000	217	140000	350	.23 to .27 c
Brown	202	126000	.6 million	15000	662	120000	175	.25 cents
Ramona	205	122000	unknown	20000	595	120000	200	.28 cents
Palomar	459	204000	2.5 million	60000	444	300000	900	.37 to .49 c

Montgomery & Palomar have an ILS approach. Brown Field has a runway and ramp that can accomodate the world's largest aircraft.

* average based plane value estimates are based on imputs from the property tax assessors office

* House values are estimates based on personal observations

* Hangar rents based on 6/1/96 survey conducted by San Diego Aircraft

b. Brown Field (slightly inferior) is our next primary competition.

1) City mgt. is signing a new 35 year, 11 acre, lease at $350 per month for concrete ramp space with Paladin Aviation.

2) Adjust out the value of the concrete ramp, you get minus $175.

(a) Concrete ramp cost $100,000 per acre less $40,000 in depreciation/deferred maintenance, amortized over 30 years at 10% is $525 per month)

3) Brown has a 10,000 ft runway and concrete ramp capable of handling the worlds largest aircraft.

4) Brown has Customs, (International Airport of Entry)

c. Ramona is our third piece of competition.

1) Inferior airport with ground rent of $200

2) No tower, few based aircraft, rural.

d. Palomar does not count in our opinion.

5. Inspite of the industry decline, Gillespie has done reasonably well over the last ten years. Why?

a. Montgomery & Brown had undesirable, percentage leases. Operators moved to Gillespie, i.e. Bill Allen, Alan Goddard, Anglo American Aviation, most Helicopter operations, Scottys prop shop.

b. Gillespie offered reasonable rents.

c. Gillespie created and enforced (with one significant exception) minimum development standards.

d. Virtually all capital investment in San Diego was on County Airports.

e. The hangars built on Gillespie increased the population of aircraft

6. <u>The next five years on Gillespie??</u>

a. The competition from Montgomery & Brown <u>will be enhanced</u> due to the new fixed rent policy.

1) High Performance is moving from Gillespie to MYF. This is the first time any one has moved to MYF or Brown in over 5 years.

b. Enforcement of minimum development standards??

c. ILS approach?

d. Yerky predicted no expansion

e. Home Base airport, low transit activity, closed terminal, corner of the USA

f. GALA sees no growth.

ATTACHMENT C

GALA

Gillespie Airport Lessee's Association

1905 North Marshall Avenue, El Cajon, California 92020 • (619) 448-2360

CONCLUSIONS AND RECOMMENDATIONS

1. Rents at Gillespie should remain $350 per month per acre.

2. The County should relax the currently rigid "aviation only" activity standard. Higher incomes from non aviation sources will off set future declines in aviation.

3. The Operators and the County should work together to improve the economic climate on Gillespie.

    a) Open Terminal on week ends, additional signage, an airport brochure, public events, etc.

4. Annual adjustments for rent would be destabilizing. Rent adjustment periods should remain at 5 year intervals.

5. The fuel flowage fee should remain 4 cents per gallon.

COUNTY OF SAN DIEGO
BOARD OF SUPERVISORS
TUESDAY, DECEMBER 16, 1997

RECEIVED
JAN 05 1998
Real Property Division
Department of General Services

MINUTE ORDER NO. 14

SUBJECT: **Gillespie Field - Amendments to Seven Aviation Leases**
(Supv. Dist: 2)

ISSUE/REFERENCE:
There are thirteen aviation leases at Gillespie Field covering 79.76 acres of land. The owners of these leaseholds, in competition with one another, provide a variety of facilities and services to aircraft owners and the flying public. Facilities include hangars and tie-down spaces for aircraft storage, offices for aviation-related businesses, and one self-serve fueling facility. Services include flight training, the sale and rental of aircraft, aircraft fueling from mobile trucks, aircraft repair and maintenance, food and beverage sales, and the sale of aircraft parts and equipment.
All thirteen Gillespie Field aviation leases contain a provision for rental adjustment every five years; however, due to different lease commencement dates, the rental adjustments do not occur at the same time, or even in the same year, placing the lessees adjusted first at what they perceive to be a competitive disadvantage. The Board is requested to approve amendments to seven aviation leases which will establish a common formula for adjusting the monthly rental for each lease on its respective anniversary date, beginning (retroactively) in calendar year 1997.
In a separate agenda item, the Board is requested to approve an amendment to the Gillespie Air Center lease which in addition to the proposed rental adjustment includes a proposed lease extension. The three remaining Gillespie Field aviation leases will be brought to the Board for lease amendments as soon as possible, following Resolution of certain outstanding lease amendment questions or issues. All three of these lessees have signed a letter accepting the rental adjustment formula.

FISCAL IMPACT:
If approved, this request will result in a $7,165 increase in current year revenue, $200,143 estimated annual revenue in Fiscal Year 1998/99, and $207,204 estimated annual revenue in Fiscal Year 1999/2000 to the Airport Enterprise Fund. The request does not require additional staff years, and there is no cost to the County General Fund.

RECOMMENDATION:
CHIEF ADMINISTRATIVE OFFICER:

1. Find, in accordance with Section 15301 of the California Environmental Quality Act Guidelines, that the proposed lease amendments are categorically exempt from the provisions of the guidelines because they involve the continuation of existing uses.

2. Approve and authorize the Clerk of the Board to execute two copies of each of the proposed aviation lease amendments for the Gillespie Field aviation leases listed below: (4 VOTES)

LESSEE	ADDRESS	ACRES	CONTRACT
Aircraft Storage Spaces	1840 Joe Crosson Drive	10.07	71168R
Classic Hangars	305 Kenny Street	4.5	70535R
Cajon Flying Service North	1825 North Marshall Avenue	7.39	71629R
El Cajon Flying Service South	1825 North Marshall Avenue	7.89	09420R
Gillespie Field Partners	1720 Joe Crosson Drive	6.18	11280R
Safari Aviation	1905 North Marshall Avenue	8.28	71101R
Southern Cal Aircraft Repair	1880 Joe Crosson Drive	2.67	71237R

ACTION:
ON MOTION of Supervisor Slater, seconded by Supervisor Cox, the Board of Supervisors took action as recommended, on Consent.

AYES: Cox, Jacob, Slater, Roberts, Horn

- - -

State of California)
County of San Diego)SS

I hereby certify that the foregoing is a full, true and correct copy of the Original entered in the Minutes of the Board of Supervisors.

THOMAS J. PASTUSZKA
Clerk of the Board of Supervisors

By Marion Egan
Marion Egan, Deputy

COUNTY OF SAN DIEGO

CHIEF ADMINISTRATIVE OFFICE

AGENDA ITEM

DATE: December 16, 1997

TO: Board of Supervisors

SUBJECT: GILLESPIE FIELD - AMENDMENTS TO SEVEN AVIATION LEASES (DISTRICT 2)

SUMMARY:

Reference

There are thirteen aviation leases at Gillespie Field covering 79.76 acres of land. The owners of these leaseholds, in competition with one another, provide a variety of facilities and services to aircraft owners and the flying public. Facilities include hangars and tie-down spaces for aircraft storage, offices for aviation-related businesses, and one self-serve fueling facility. Services include flight training, the sale and rental of aircraft, aircraft fueling from mobile trucks, aircraft repair and maintenance, food and beverage sales, and the sale of aircraft parts and equipment.

All thirteen Gillespie Field aviation leases contain a provision for rental adjustment every five years; however, due to different lease commencement dates, the rental adjustments do not occur at the same time, or even in the same year, placing the lessees adjusted first at what they perceive to be a competitive disadvantage. The Board is requested to approve amendments to seven aviation leases which will establish a common formula for adjusting the monthly rental for each lease on its respective anniversary date, beginning (retroactively) in calendar year 1997.

In a separate agenda item, the Board is requested to approve an amendment to the Gillespie Air Center lease which in addition to the proposed rental adjustment includes a proposed lease extension. The three remaining Gillespie Field aviation leases will be brought to the Board for lease amendments as soon as possible, following resolution of certain outstanding lease amendment questions or issues. All three of these lessees have signed a letter accepting the rental adjustment formula.

Recommendation

CHIEF ADMINISTRATIVE OFFICER:

1. Find, in accordance with Section 15301 of the California Environmental Quality Act Guidelines, that the proposed lease amendments are categorically exempt from the provisions of the guidelines because they involve the continuation of existing uses.

2. Approve and authorize the Clerk of the Board to execute two copies of each of the proposed aviation lease amendments for the Gillespie Field aviation leases listed below: (4 VOTES)

SUBJECT: GILLESPIE FIELD - AMENDMENTS TO SEVEN AVIATION LEASES (DISTRICT 2)

LESSEE	ADDRESS	ACRES	CONTRACT
Aircraft Storage Spaces	1840 Joe Crosson Drive	10.07	71168R
Classic Hangars	305 Kenney Street	4.5	70535R
El Cajon Flying Service North	1825 North Marshall Avenue	7.39	71629R
El Cajon Flying Service South	1825 North Marshall Avenue	7.89	09420R
Gillespie Field Partners	1720 Joe Crosson Drive	6.18	11280R
Safari Aviation	1905 North Marshall Avenue	8.28	71101R
Southern Cal Aircraft Repair	1880 Joe Crosson Drive	2.67	71237R

Advisory Statement

On October 21, 1996, the Gillespie Field Development Council recommended that the Board approve the proposed amendments for all aviation leases at Gillespie Field, including the aviation leases listed above.

Fiscal Impact

If approved, this request will result in a $7,165 increase in current year revenue, $200,143 estimated annual revenue in Fiscal Year 1998/99, and $207,204 estimated annual revenue in Fiscal Year 1999/2000 to the Airport Enterprise Fund. The request does not require additional staff years, and there is no cost to the County General Fund.

BACKGROUND

Rental Adjustments

In December 1996, the Gillespie Field Development Council approved a standard rental adjustment formula for use with all Gillespie Field aviation leases beginning in calendar year 1997, and continuing until 2010. The rental adjustment formula was approved after the Council considered the appraisal report of David E. Yerke, MAI, recommendations of County staff, and the testimony of many of the individual Gillespie Field aviation lessees. Mr. Yerke concluded that $625 per acre, per month was the fair market rate for Gillespie Field Aviation land. The Council, after considering all the testimony, concluded that Mr. Yerke had relied too heavily on comparison rental rates in Los Angeles and other airports outside of San Diego County, and did not give proper weight to the rates charged by the City of San Diego for its Brown Field airport which is in direct competition with Gillespie Field. Rates at Brown Field currently average $339 per acre, per month.

SUBJECT: GILLESPIE FIELD - AMENDMENTS TO SEVEN AVIATION LEASES (DISTRICT 2)

With one exception, all Gillespie Field Aviation lessees are currently paying a monthly land rental based on a per-acre rate of either $325 or $350. Golden State Aviation is currently paying $463 per-acre, per-month. The proposed new adjustment formula provides that all leases currently at the lower $325 rate will be adjusted retroactively on their respective lease anniversary dates between March 1997 and December 1997 to the $350 rate, and on their next respective anniversary dates in 1998 or 1999, to a rate of $375 per acre, per month. All leases currently at the $350 rate will remain at this rate through their respective anniversary dates in 2000. In 2000, all leases will be subject to rental adjustment on their respective anniversary dates based on the per-acre rate of $400, adjusted for any increase in the Consumer Price Index (CPI) between January 1, 1997 and December 31, 1999. Thereafter, each lease would be subject to additional CPI adjustments every thirty months through calendar year 2010. Each adjustment to the common rental rate cannot exceed 3% for any calendar year, on a non-cumulative, non-compounding basis. For example, if the CPI increases at a rate of 2.5% each year between 1997 and 2000, the per-acre, per-month rate to be applied for all leases in 2000 will be $430, calculated as follows: $400 + ($400 x .025) + ($400 x .025) + ($400 x .025) = $430. Prior to the year 2010, staff will obtain a new appraisal and recommend a new standard rental for adoption by the Gillespie Field Development Council and the Board. Golden State Aviation will remain at its $463 rate until the common rental rate exceeds $463. Effective on its first adjustment date after the common rate exceeds $463. Golden State Aviation will pay the same rate as all other Gillespie Field lessees.

Attached is a Rental Adjustment Table which outlines the current per-acre rent, the next adjustment date, the corresponding adjustment rate, and the formula and dates for future adjustments. This table also indicates (in bold type) which Gillespie Field Aviation leases are not included among the proposed transactions, and under the "Status" column, the reasons why.

Updated Lease Clauses

When County staff negotiate for lease amendments, it is staff's practice to negotiate for updated lease clauses which conform, to the highest degree possible, with the latest County Counsel-approved lease language. In connection with the negotiation for the standard rental adjustment formula proposed herein, staff was successful in gaining agreement for the inclusion of certain updated lease clauses when these clauses were not already contained in a given lease. The updated lease clauses include hazardous materials, waiver of relocation assistance, maneuver area, security, substance abuse, encumbrance, late rental payment, non-discrimination, and disposition of improvements. These clauses will provide greater protection to the County from risks associated with leasing its airport land.

Benefits of Proposed Transactions

If approved by the Board, both the County and the lessees will benefit from the proposed transactions by not having to invest time and money in rental negotiations during the next thirteen year period. The County will also save the expense of obtaining appraisal reports over this period. The lessees, who compete with one another for business, will be subject to the same per-acre rental for the use of airport land, eliminating inequities due to the variations in timing of their rental adjustments.

SUBJECT: GILLESPIE FIELD - AMENDMENTS TO SEVEN AVIATION LEASES (DISTRICT 2)

Environmental Impacts:

The proposed lease amendments are categorically exempt from environmental assessment requirements under Section 15301 of the California Environmental Quality Act Guidelines because they involve the continuation of existing uses.

Mandatory Compliance:

The proposed lease amendments comply with the provisions of Section 67 of the San Diego County Administrative Code which prohibits the County from contracting with persons employed by the County or businesses where persons employed by the County, either currently or within the past twelves months, serve as officers, principals, partners or shareholders.

Respectfully submitted,

LAWRENCE B. PRIOR III
Chief Administrative Officer

SUBJECT: GILLESPIE FIELD - AMENDMENTS TO SEVEN AVIATION LEASES (DISTRICT 2)

COUNTY COUNSEL APPROVAL: Form and Legality [X] Yes [ ] N/A

[ ] Standard Form [ ] Ordinance [ ] Resolution

CHIEF FINANCIAL OFFICER APPROVAL: [X] Yes [ ] N/A

4 VOTES: [X] Yes [ ] No

CONTRACT REVIEW PANEL: [ ] Approved_______________ [X] N/A

CONTRACT NUMBER(S): 71168R, 70535R, 71629R, 09420R, 11280R, 71101R and 71237R

PREVIOUS RELEVANT BOARD ACTION:
11/4/97 (22) Approval of Wayne E. Breise and S. D. Aircraft, Inc. lease amendments.

BOARD POLICIES APPLICABLE:
F-34, Revenue-Lease of County Real Property

CITIZEN'S COMMITTEE STATEMENT
On October 21, 1996, the Gillespie Field Development Council recommended that the Board approve the proposed amendments for all aviation leases at Gillespie Field, including the seven aviation leases listed above.

CONCURRENCE(S):
Department of Public Works - Stephen Thunberg, Director

ATTACHMENTS:
Gillespie Field Aviation Leases - Rent Adjustment Table

ORIGINATING DEPARTMENT:
Department of General Services

CONTACT PERSON: John C. Gaines, Deputy Director (Acting)
694-2290 MS (O200)

John C. Miller

JOHN A. MILLER, Director
DEPARTMENT OF GENERAL SERVICES

December 16, 1997
MEETING DATE

Attachment 6
Sample Gillespie Field Rental Clause
ARTICLE 4
RENT

4.1 Base Monthly Rent. Subject to adjustment as provided in Sections 4.2(COST OF LIVING ADJUSTMENT ("COLA") TO THE BASE MONTHLY RENT) and 4.3 (RENT RATE RENEGOTIATION), Lessee shall pay as rent for the use and occupancy of the Premises the Base Monthly Rent specified in Article 1 (SUMMARY OF BASIC LEASE PROVISIONS). Lessee shall pay said rent in advance, on the first day of each calendar month ("Rent Due Date"), without setoff, deduction, prior notice or demand, commencing on the Commencement Date. Should the rent Commencement Date be a day other than the first day of a calendar month, then the rent for such first fractional month shall be computed on a daily basis for the period from the Commencement Date to the end of such calendar month and at an amount equal to one thirtieth (1/30th) of the said monthly rent for each such day, and thereafter shall be computed and paid as aforesaid.

4.2 Cost of Living Adjustments ("COLA") to the Base Monthly Rent.. For the period of this Lease commencing July 1, 2005 and ending June 30, 2010, Lessee shall pay rent to County in the amounts calculated in the manner set forth below:

(1) For the thirty-month period of this Lease commencing July 1, 2005 and ending December 31, 2007, Lessee shall pay to County the sum per month determined by the following formula:

$$R = (\$400 + (A + B + C + D + E + F + G + H) \ \text{x} \ \$400) \ \text{x} \ N$$

(2) For the thirty-month period of this Lease commencing January 1, 2008 and ending June 30, 2010, Lessee shall pay to County the sum per month determined by the following formula:

$$R = (\$400 + (A + B + C + D + E + F + G + H + I + J + K) \ \text{x} \ \$400) \ \text{x} \ N$$

WHEREIN,

R = the amount of rent payable for the applicable period; and

A = the increase accruing, if any, calculated to the hundredth percent, in the Consumer Price Index, as hereinafter defined, accruing between January 1, 1997 and January 1, 1998, but not to exceed .03;

B = the increase accruing, if any, calculated to the hundredth percent, in the Consumer Price Index, as hereinafter defined, accruing between January 1, 1998 and January 1, 1999, but not to exceed .03;

C = the increase accruing, if any, calculated to the hundredth percent, in the Consumer Price Index, as hereinafter defined, accruing between January 1, 1999 and January 1, 2000, but not to exceed .03;

D = the increase accruing, if any, calculated to the hundredth percent, in the Consumer Price Index, as hereinafter defined, accruing between January 1, 2000 and January 1, 2001, but not to exceed .03;

E = the increase accruing, if any, calculated to the hundredth percent, in the Consumer Price Index, as hereinafter defined, accruing between January 1, 2001 and January 1, 2002, but not to exceed .03;

F = the increase accruing, if any, calculated to the hundredth percent, in the Consumer Price Index, as hereinafter defined, accruing between January 1, 2002 and January 1, 2003, but not to exceed .03;

G = the increase accruing, if any, calculated to the hundredth percent, in the Consumer Price Index, as hereinafter defined, accruing between January 1, 2003 and January 1, 2004, but not to exceed .03;

H = the increase accruing, if any, calculated to the hundredth percent, in the Consumer Price Index, as hereinafter defined, accruing between January 1, 2004 and January 1, 2005, but not to exceed .03;

I = the increase accruing, if any, calculated to the hundredth percent, in the Consumer Price Index, as hereinafter defined, accruing between January 1, 2005 and January 1, 2006, but not to exceed .03;

J = the increase accruing, if any, calculated to the hundredth percent, in the Consumer Price Index, as hereinafter defined, accruing between January 1, 2006, and January 1, 2007, but not to exceed .03;

K = the increase accruing, if any, calculated to the hundredth percent, in the Consumer Price Index, as hereinafter defined, accruing between January 1, 2007 and January 1, 2008, but not to exceed .03.

N = the net acreage of the Premises as defined in Section 1.3 (PREMISES) and Section 4.2. (BASE RENT ADJUSTMENT FOR MUSEUM GROUND SUBLEASE) and Exhibits "A-1" and "A-2", herein;

4.2.1 Consumer Price Index. The consumer price index which shall be used in the preceding formulas shall be that published by the United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index for San Diego, for all Urban Consumers (1982-84=100). In the event that such index is not published for San Diego, then another comparable index generally recognized as authoritative shall be substituted by written agreement of County and Lessee. If County and Lessee fail to agree on a substitute index, the substitute index shall be determined by arbitration pursuant to the provisions of the California Code of Civil Procedure.

4.3 Rent Rate Renegotiation. For the five year period of this Lease commencing July 1, 2010, and for each succeeding five-year period or portion thereof the Base Monthly Rent for the first twelve months, or any portion thereof, of any five-year period, shall be adjusted, as applicable, to the higher of (i) the amount payable between January 1, 2008, and June 30, 2010 per month as calculated in Section 4.2 above, or (ii) fair market rent ("Fair Market Rent") for the Premises as of expiration of the preceding five-year period, calculated as follows:

(a) Commencing one hundred eighty (180) days prior to the applicable Rent Adjustment Date, County and Lessee shall attempt to agree upon the Fair Market Rent. If the parties are unable to agree upon the Fair Market Rent within sixty (60) days thereafter, then each party shall designate, by written notice to the other party within ten (10) days after expiration of said 60-day period, a real estate appraiser with at least five (5) years' full-time commercial appraisal experience in the area in which the Premises are located to appraise and determine the monthly Fair Market Rent for the Premises for the first twelve months of the next five-year period. If either party fails to designate an appraiser, one appraiser shall determine the Fair Market Rent.

(b) If two appraisers are designated, the two shall promptly meet in an attempt to set the Fair Market Rent. If the two appraisers are unable to agree within twenty (20) days after designation of the second appraiser, they shall appoint a third appraiser meeting the qualifications stated above within ten (10) days after expiration of the twenty-day period provided to the two appraisers to set the Fair Market Rent. If the two appraisers are unable to agree on a third appraiser, either of the parties to this Lease, by giving ten (10) days' written notice to the other party, can apply to the then president of the Real Estate Board of San Diego County for the selection of a third appraiser. Each party shall pay the fee of the appraiser it designates and one-half (1/2) the cost of the third appraiser. Within twenty (20) days after the selection of the third appraiser, a majority of the appraisers shall set the Fair Market Rent. If a majority of the appraisers are unable to agree, then the average of the three appraisals shall be the Fair Market Rent; provided, however, if the low appraisal is more than five percent (5%) lower and/or if the high appraisal is more than five percent (5%) higher than the middle appraisal, then the low appraisal and/or high appraisal shall be disregarded in averaging the appraisals.

(c) In determining the Fair Market Rent, the appraisals shall evaluate the monthly amount which the Premises could be expected to return to the County if offered for lease on the open market under normal circumstances, giving due consideration to other properties located in the immediate geographic vicinity of the Premises, desirability and utility of the Premises and similar relevant matters. Improvements placed upon the Premises by the Lessee since the Commencement Date of this Lease shall not be considered in arriving at the Fair Market Rent. After the Fair Market Rent has been set, the appraisers shall immediately notify the parties in writing.

(d) If the parties cannot arrive at the Fair Market Rent through use of the foregoing procedure, or should either party fail to perform as required herein, the question shall thereafter be submitted to arbitration by notice to the other party. The judgment in any such arbitration may be entered in any court having jurisdiction and shall be final and binding between the parties. The arbitration shall be conducted in accordance with California Code of Civil Procedure § 1280, et seq.

4.4 Additional Rent. Lessee shall pay, as Additional Rent, all sums of money required to be paid pursuant to the terms of this Lease which are not payable as Base Monthly Rent, collectively referred to herein as "Additional Rent." If such amounts or charges are not paid at the time provided in this Lease, they shall nevertheless be collectible as Additional Rent with the next installment of Base Monthly Rent thereafter falling due, but nothing herein contained shall be deemed to suspend or delay the payment of any amount of money or charge at the time the same becomes due and payable hereunder or to limit any other remedy of County. All amounts of Base Monthly Rent and Additional Rent payable in a given month shall be deemed to comprise a single rent obligation of Lessee to County.

4.5 Additional Rent for County's Equity. As compensation for the present value of County's reversionary interest in certain improvements on the leasehold ("County's Equity"), Lessee shall pay Additional Rent to County for County's Equity in the amount of $179,913.00, to be paid in 180 monthly payments of $1,824.80, principal and interest. County agrees to amortize full amount of said Additional Rent over 180 equal monthly installments of $1,824.80, including annual interest of 9%. Said monthly installments shall begin January 1, 2003 and end December 1, 2017.

4.5.1 Equity Payoff Schedule. Notwithstanding anything implied to the contrary above, Lessee may prepay in full, at any time prior to December 1, 2017, the then outstanding principal balance, as shown in Exhibit "J" of said Additional Rent described in 4.5 herein, and following said prepayment, the Additional Rent described herein will cease to be an obligation payable to County beginning with the next calendar month following said prepayment. Lessee may not partially prepay the Additional Rent described in 4.5 herein.

4.6 Delivery of Rent Payments. All rent due under this Lease shall be made payable to the County of San Diego, and shall be considered paid when delivered to:

Controller Branch Office-Cashier
5201 Ruffin Road, Suite B
San Diego, California 92123-1677

provided, however, that County may, at any time, by written notice to Lessee, designate a different address to which Lessee shall deliver the rent payments. County may, but is not obligated to, send monthly rent invoices to Lessee.

4.7 Failure to Pay Base Monthly Rent or Additional Rent; Late Charge.

(a) If Lessee fails to pay rent due hereunder within fifteen (15) days of the time it is due and payable, such unpaid amounts shall bear interest at the rate of ten percent (10%) per year from the date due to the date of payment, computed on the basis of monthly compounding with actual days elapsed compared to a 360-day year. In addition to such interest, the late payment by Lessee of any monthly rental due hereunder will cause County to incur certain costs and expenses not contemplated under this Lease, the exact amount of which costs being extremely difficult or impracticable to fix. Such costs and expenses will include, without limitation, administrative and collection costs, and processing and accounting expenses. Therefore, if any such monthly rental is not postmarked or received by County from Lessee within fifteen (15) days of the Due Date, or the first business day thereafter, Lessee shall immediately pay to County a late charge equal to five percent (5%) of such overdue amount. This late charge represents a reasonable estimate of such costs and expenses and is fair compensation to County for its loss caused by Lessee's nonpayment. Should Lessee pay said late charge but fail to pay contemporaneously therewith all unpaid amounts of rent due hereunder, County's acceptance of this late charge shall not constitute a waiver of Lessee's default with respect to such nonpayment by Lessee nor prevent County from exercising all other rights and remedies available to County under this Lease or under law.

(b) In the event of a dispute between the parties as to the correct amount of Base Monthly Rent or Additional Rent owed by Lessee, County may accept any sum tendered by Lessee in payment thereof, without prejudice to County's claim as to the proper amount of rent owing. If it is later determined that Lessee has not paid the full amount of rent owing, the late charge specified herein shall apply only to that portion of the rent still due and payable from Lessee. Notwithstanding any provision of this Section to the contrary, however, County's Lease Administrator may waive any late charge or interest upon the written recommendation of the Airports Director.

RESTRICTED APPRAISAL REPORT

This is a Restricted Appraisal Report which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(c) of the Uniform Standards of Professional Appraisal Practice for a Restricted Appraisal Report. As such, it does not present discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated below. The appraiser is not responsible for unauthorized use of this report.

APPRAISER:

Alan M. Wilson, MAI
Principal Appraiser - Alan M. Wilson & Associates
12315 Oak Knoll Road, Suite 220
Poway, California 92064

CLIENT:

Mr. Quentin Arvin
Chief Appraiser
COUNTY OF SAN DIEGO
Department of General Services
Real Property Division
5555 Overland Avenue, Building 2, Room 110
San Diego, CA 92123

INTENDED USE OF REPORT:

For the County of San Diego's sole use in connection with negotiating ground leases at McClellan-Palomar Airport

PURPOSE OF THE APPRAISAL:

The purpose of this appraisal was to estimate market rent. Market rent is defined as:

"the rental income that a property would most probably command in the open market; indicated by the current rents paid and asked for comparable space as of the date of the appraisal."

(Source: Dictionary of Real Estate Appraisal; Third Edition, page 221)

INTEREST VALUED:

Leased fee

EFFECTIVE DATE OF VALUE:

The effective date of value is August 29, 2000.

DATE OF REPORT:

The date of this report is September 6, 2000.

APPRAISAL DEVELOPMENT AND REPORTING PROCESS (SCOPE OF THE APPRAISAL):

This is a complete appraisal presented in a restricted report format. The scope of this assignment included: identification of a "typical" aviation-restricted parcel at McClellan-Palomar Airport; a field inspection of the subject airport and of some of the comparable data used in the analyses; inspection of the surrounding neighborhood; research and investigation of current market conditions relative to the property type appraised as well as the market sector within which the subject would compete; interviews with airport managers and leasing agents, appraisers, tenants, and representatives from relevant public agencies or governing bodies; a search for market data similar in highest and best use to the subject property; and confirmation and analysis of recent aviation-restricted leases at competitive airports.

To develop the opinions of value, the appraiser performed a complete appraisal process, as defined by the Uniform Standards of Professional Appraisal Practice. This means that no departures from Standard 1 were invoked. This Restricted Appraisal Report sets forth only the appraiser's conclusion of market rent. Supporting documentation is retained in the appraiser's file.

SUBJECT PROPERTY IDENTIFICATION:

Real Property Parcel 83-0347-A1 was selected as the representative "typical" lot for the McClellan-Palomar Airport based on its size, shape, location, access and utility. It is a 3.61-acre parcel. While the lot is currently leased and has building improvements on it, for purposes of this assignment the lot is assumed to be vacant and awaiting improvement to its highest and best use. A complete legal description of this parcel was not available as of the date of the assignment.

HIGHEST AND BEST USE:

The subject lot is assumed to be vacant, awaiting development to its highest and best use. In this case, the lot's highest and best use is concluded to be for immediate development with aviation-restricted uses in accordance with the use restrictions appearing in the specimen lease provided for this assignment.

ANALYSES AND CONCLUSIONS:

In order to estimate market ground rent for the subject aviation-restricted parcel, a number of airports were surveyed for the purpose of gaining information on recent ground lease transactions. With most property types, direct comparisons between competitive properties and the subject can be made. Through the process of comparison, superior and inferior properties can usually be identified. The process of direct comparison does not lend itself as well to the estimate of market ground rent for airports as well as it does for more conventional property types. This is because each airport is unique. Rating them as "superior" or "inferior" to the subject involves more subjectivity than for other property types. Ideally, every airport fills a distinct niche in its regional aviation market. For comparison purposes, information from airports that fill a similar niche to Palomar-McClellan Airport were particularly helpful. In spite of its shortcomings, direct comparison is regarded as the most appropriate method to use for the purpose of estimating market ground rent.

In selecting potential comparable airports, the most important criteria were location, the presence or absence of a control tower, the number of annual operations, the number of based aircraft and their type, the existence of commuter air carrier traffic, the inventory of available land at the airport, and the airports' "reason for being", i.e., the type of market that the airports appeal to. McClellan-Palomar Airport is a ~~non-~~towered, general aviation airport in a suburban setting, within a major metropolitan area. It has virtually no potential for physical expansion of its boundaries, and it has no sites upon which expansion could be accommodated.

The original search for comparable data was concentrated in southern California. However, there were insufficient data from that particular sub-market from which to form a supportable conclusion of market ground rent. As a result, the geographic parameter of the search was expanded into a regional effort. Market information from northern California, as well as Nevada and Arizona, were also considered. An attempt was made to locate recent ground lease transactions that were openly negotiated by lessor and lessee. Every effort was made to avoid using "policy" rents that are applied simply because "those are rates that have always been charged", or because "that's what the city council wants to charge". In a few instances the rents shown in the table reflect policy rents. However, they were relied upon to a much lesser extent than the openly negotiated rents in arriving at an estimate of market rent for the "typical" aviation-restricted parcel at McClellan-Palomar Airport.

Ordinarily, in estimating market rent for aviation-restricted land, the most desirable comparable rental data would come from the most proximate and physically similar airports to the subject. However, in this case, the analyst has elected to obtain the comparable data mostly from airports in other areas. The reason for this is that, during the research for this assignment, the analyst found that most of San Diego County's airports (including those operated by the City of San Diego) have historically been leased at rates that reflect a "policy" decision rather than at rates which result from open negotiation or the competitive bid process. The result has been that most of San Diego County's airports are leased at ground rents that are lower than found at similar facilities in other jurisdictions. Since it is necessary for valuation purposes to estimate market rent, market data from the local airports were largely considered to be inappropriate.

Particular attention was paid to subtleties in the leases that may have impacted base rental rates. These include the length of the lease terms, the reversion clauses, the physical condition of the parcel at the time of the lease, and the parcels' locations relative to others on the field. In addition, supply and demand factors for other types of airport real estate (hangars and tiedowns) were also considered to get a feel for the condition of the comparable airports' economies. Rents for tiedowns and hangars also help to rate the airport as "superior" or "inferior" to the subject.

The theory behind direct comparison is that more desirable properties than the subject will generate higher rents. Conversely, the subject should be able to generate higher rents than inferior properties. In this way, the subject's market ground rent can be bracketed. The data sample generated for this task was sufficient to form such a bracket. (In reality, there are no "superior" or "inferior" airports because they all serve specific purposes in the aviation market. The rents being achieved at any given airport simply reflect the interaction of supply and demand as do the rents for any other type of real estate.)

Conclusion of Market Rent

Based on the appraiser's analysis of the ground leasing activity at competitive airports, it is the appraiser's opinion that market rent for a typical aviation-restricted parcel of land at McClellan-Palomar Airport is $1,450 per acre, per month, triple net. The estimated market ground rent reflects a "typical" ready-to-build, aviation-restricted site with immediate taxiway access, and public utilities stubbed to the site's boundaries. It is recognized that this rental rate is considerably higher than the existing rental structure at the airport.

RESTRICTED APPRAISAL REPORT

The information contained in this report is specific to the needs of the client named below and for the intended use stated below. The appraiser is not responsible for unauthorized use of this report.

APPRAISER:

Alan M. Wilson, MAI
Principal Appraiser - Alan M. Wilson & Associates
12315 Oak Knoll Road, Suite 220
Poway, California 92064

CLIENT:

Mr. Quen Arvin
Chief Appraiser
COUNTY OF SAN DIEGO
Department of General Services
Real Property Division
5555 Overland Avenue, Building 2, Room 110
San Diego, CA 92123

INTENDED USE OF REPORT:

For the County of San Diego's sole use in connection with negotiating ground leases at McClellan-Palomar Airport

PURPOSE OF THE APPRAISAL:

The purpose of this appraisal was to estimate market rent. Market rent is defined as:

"the rental income that a property would most probably command in the open market; indicated by the current rents paid and asked for comparable space as of the date of the appraisal."

(Source: Dictionary of Real Estate Appraisal; Third Edition, page 221)

INTEREST VALUED:

Leased fee

EFFECTIVE DATE OF VALUE:

The effective date of value is March 3, 2003

DATE OF REPORT:

The date of this report is March 7, 2003

APPRAISAL DEVELOPMENT AND REPORTING PROCESS (SCOPE OF THE APPRAISAL):

This is a complete appraisal presented in a restricted report format. The scope of this assignment included: identification of a "typical" aviation-restricted parcel at McClellan-Palomar Airport; a field inspection of the subject airport and of some of the comparable data used in the analyses; inspection of the surrounding neighborhood; research and investigation of current market conditions relative to the property type appraised as well as the market sector within which the subject would compete; interviews with airport managers and leasing agents, appraisers, tenants, and representatives from relevant public agencies or governing bodies; a search for market data similar in highest and best use to the subject property; and confirmation and analysis of recent aviation-restricted leases at competitive airports.

To develop the opinions of value, the appraiser performed a complete appraisal process, as defined by the Uniform Standards of Professional Appraisal Practice. This means that no departures from Standard 1 were invoked. This Restricted Appraisal Report sets forth only a summary of the market data considered in this appraisal and the appraiser's conclusion of market rent. Supporting documentation is retained in the appraiser's file.

SUBJECT PROPERTY IDENTIFICATION:

Real Property Parcel 83-0347-A1 was selected as the representative "typical" lot for the McClellan-Palomar Airport based on size, shape, location, access and utility. It is a 3.61-acre parcel. While the lot is currently leased and has building improvements on it, for purposes of this assignment the lot is assumed to be vacant and awaiting improvement to its highest and best use. A complete legal description of this parcel was not available as of the date of the assignment.

HIGHEST AND BEST USE:

The subject lot is assumed to be vacant, awaiting development to its highest and best use. In this case, the lot's highest and best use is concluded to be for immediate development with aviation-restricted uses in accordance with the use restrictions appearing in the specimen lease provided for this assignment.

ANALYSES AND CONCLUSIONS:

In order to estimate market ground rent for the subject aviation-restricted parcel, a number of airports were surveyed for the purpose of gaining information on recent ground lease transactions. With most property types, direct comparisons between competitive properties and the subject can be made. Through the process of comparison, superior and inferior properties can usually be identified. The process of direct comparison does not lend itself as well to the estimate of market ground rent for airports as well as it does for more conventional property types. This is because each airport is unique. Rating them as "superior" or "inferior" to the subject involves more subjectivity than for other property types. Ideally, every airport fills a distinct niche in its regional aviation market. For comparison purposes, information from airports that fill a similar niche to McClellan-Palomar Airport were particularly helpful. In spite of its shortcomings, direct comparison is regarded as the most appropriate method to use for the purpose of estimating market ground rent.

In selecting potential comparable airports, the most important criteria were location, the presence or absence of a control tower, the number of annual operations, the number of based aircraft and their type, the existence of commuter air carrier traffic, the inventory of available land at the airport, and the airports' "reason for being", i.e., the type of market that the airports appeal to. McClellan-Palomar Airport is a towered, general aviation airport in a suburban setting, within a major metropolitan area. It has virtually no potential for physical expansion of its boundaries, and it has no sites upon which expansion could be accommodated.

The search for comparable data was concentrated in southern California, but the limited number of directly comparable airports with recent ground lease transactions required that the geographic parameter of the search be expanded. Market information from northern California, as well as Nevada and Arizona, were also considered. An attempt was made to locate recent ground lease transactions that were openly negotiated by lessor and lessee. Every effort was made to avoid using "policy" rents that are applied simply because "those are rates that have always been charged", or because "that's what the city council wants to charge". In a few instances the rents shown in the table reflect policy rents. However, they were relied upon to a much lesser extent than the openly negotiated rents in arriving at an estimate of market rent for the "typical" aviation-restricted parcel at McClellan-Palomar Airport.

Ordinarily, in estimating market rent for aviation-restricted land, the most desirable comparable rental data would come from the most proximate and physically similar airports to the subject. However, in this case, the analyst has elected to obtain the comparable data mostly from airports in other areas. The reason for this is that, during the research for this assignment, the analyst found that most of San Diego County's airports (including those operated by the City of San Diego) have historically been leased at rates that reflect a "policy" decision rather than at rates which result from open negotiation or the competitive bid process. The result has been that most of San Diego County's airports are leased at ground rents that are lower than found at similar facilities in other jurisdictions. Since it is necessary for valuation purposes to estimate market rent, market data from the local airports were largely considered to be inappropriate.

Particular attention was paid to subtleties in the leases that may have impacted base rental rates. These include the length of the lease terms, the reversion clauses, the physical condition of the parcel at the time of the lease, and the parcels' locations relative to others on the field. In addition, supply and demand factors for other types of airport real estate (hangars and tiedowns) were also considered to get a feel for the condition of the comparable airports' economies. Rents for tiedowns and hangars also help to rate the airport as "superior" or "inferior" to the subject.

The theory behind direct comparison is that more desirable properties than the subject will generate higher rents. Conversely, the subject should be able to generate higher rents than inferior properties. In this way, the subject's market ground rent can be bracketed. The data sample generated for this task was sufficient to form such a bracket. (In reality, there are no "superior" or "inferior" airports because they all serve specific purposes in the aviation market. The rents being achieved at any given airport simply reflect the interaction of supply and demand as do the rents for any other type of real estate.)

Presentation of Market Data

Following is a summary of the market data considered for this appraisal. The data are arrayed according to their rental rates per acre, per month, from high to low.

Conclusion of Market Rent by Direct Comparison

The three general aviation airports rated superior (with ground rents between $1,830 and $2,222 per acre per month) tend to be located in highly urbanized areas, or have significant air carrier traffic. The airports rated inferior to the subject's McClellan-Palomar Airport have ground rents ranging from $690 to $1,271 per acre per month. It is also known that a ground lease extension was executed about two years ago for an existing lessee at a rate of $1,450 per acre per month. This item of market data was also considered in the appraiser's conclusion of current market rent.

Based on the preceding, a market rent of $1,650 per acre per month is concluded as a reasonable ground rent for the subject parcel. It should be noted that airport sponsors may legally charge different rates for different parcels at any given airport. For example, they could charge less for larger parcels, or for parcels without direct taxiway access. In actuality, however, rates are typically applied uniformly for leasehold parcels regardless of physical differences. This is because of sponsors' fears of running contrary to FAA's "fairness" language when it comes to rates and charges.

Other Considerations

A number of other considerations go into the establishment of ground rent at an airport. Chief among these are the length of the lease term and the disposition of the improvements at the end of the lease. In general, longer lease terms require higher rents. Conversely, if the improvements revert to the airport agency at the end of the lease, then the ground lease rental rate would likely be lower than if the improvements became the property of the tenant at expiration. Percentage rents are occasionally used in addition to the base rent, although this practice is now uncommon. Several respondents reported that they are moving away from percentage rental agreements as quickly as possible because of the difficulty in auditing the tenants' books. While few respondents reported including specific dollar amounts for their tenants' capital investment requirements, all reported that the tenant's proposed improvements are a material consideration in the decision to ground lease. A few lessors were disappointed when their tenants did not follow through on their verbal commitments to improve their leaseholds.

The survey respondents were about equally divided in their policies toward commercial versus storage tenants (i.e. those who would lease land and build hangars for sub-lease). About half of the respondents said that commercial tenants would be charged more (in some cases double) at their airports than storage tenants. Nearly all of the respondents said that parcel size and location on the airport made little or no difference in setting ground rent. Many stated that their interpretations of FAA "fairness" requirements did not permit them to charge different rental rates based on physical or locational characteristics.

Conclusion

In summary, it is concluded that market rent of $1,650 per acre, per month, is reasonable for the subject parcel at Gillespie Field as of March 3, 2003. This figure is concluded under the presumption of the terms contained within the specimen lease provided for the appraiser's review. The concluded market rent is a first year "base" ground rent that is assumed to be increased by CPI annually, but applied every few years.

ALAN M. WILSON & ASSOCIATES

Real Estate Appraisers and Consultants

September 1, 2000

Mr. Quentin Arvin
Chief Appraiser
COUNTY OF SAN DIEGO
Department of General Services
Real Property Division
5555 Overland Avenue, Building 2, Room 110
San Diego, CA 92123

Re: Market Rental Estimate for Aviation-Restricted Land
Ramona Airport, Ramona, California

Dear Mr. Arvin:

In accordance with your request, I estimated current market rent for aviation-retricted land at Ramona Airport. Based on analysis of recent market activity, it was concluded that triple-net market ground rent for a typical aviation-restricted parcel at the airport, as of August 23, 2000, was:

SIX HUNDRED SEVENTY-FIVE DOLLARS PER ACRE PER MONTH

*** $675.00 ***

The market rent conclusion reflects certain assumptions which are listed in the body of this report. To the extent that any of the assumptions made during the course of the appraisal prove inappropriate or erroneous, the market rent estimate is subject to error. For that reason, the reader is strongly urged to review all of the assumptions and limiting conditions under which this appraisal was prepared.

A complete appraisal of market ground rent has been undertaken. The results of the appraisal are presented in a summary report format, of which this letter of transmittal is only a part. As a summary report, this document is intended to comply with the Uniform Standards of Professional Appraisal Practice's Standards Rule 2-2(b). Some of the information used during the course of the appraisal will be retained in the appraiser's file. For a brief summary of findings, please refer to the Summary of Important Facts and Conclusions on page 1 of the report.

12315 OAK KNOLL ROAD, SUITE 220, POWAY, CALIFORNIA 92064
TELEPHONES: (858) 486-3350; FAX (858) 486-8350

The intended use of this report is to assist the County of San Diego in negotiating ground leases at the airport. No other use of the report is authorized without the written consent of the appraiser.

Thank you for this opportunity to be of service. Please call with any questions you might have.

Respectfully submitted,

Alan M. Wilson, MAI
State Certification No. AG006308
Exp. 4/13/02

Attachment 10
Sample Rental Adjustment Clause from County Standard Lease Form

ARTICLE 4
RENT

4.1 Base Monthly Rent. Subject to adjustment as provided in Sections 4.2(COST OF LIVING ADJUSTMENT ("COLA") TO THE BASE MONTHLY RENT) and 4.3 (RENT RATE RENEGOTIATION), Lessee shall pay as rent for the use and occupancy of the Premises the Base Monthly Rent specified in Article 1 (SUMMARY OF BASIC LEASE PROVISIONS). Lessee shall pay said rent in advance, on the first day of each calendar month ("Rent Due Date"), without setoff, deduction, prior notice or demand, commencing on the Commencement Date. Should the rent Commencement Date be a day other than the first day of a calendar month, then the rent for such first fractional month shall be computed on a daily basis for the period from the Commencement Date to the end of such calendar month and at an amount equal to one thirtieth (1/30th) of the said monthly rent for each such day, and thereafter shall be computed and paid as aforesaid.

4.2 Cost of Living Adjustments ("COLA") to the Base Monthly Rent. The Base Monthly Rent provided for in Section 4.1 (BASE MONTHLY RENT) shall be adjusted as of the first (1st) anniversary of the Commencement Date, and thereafter every year on such date for the remainder of the Term (each such one-year period is referred to herein as a "COLA Period"), to reflect any increase or decrease in the purchasing power of the dollar. The rent adjustment to be effective during each COLA Period shall be determined by use of the following formula.

$$R=A\ (B/C)$$

Wherein:

"R" equals the adjusted Base Monthly Rent for each month of the COLA Period for which rent is being adjusted;

"A" equals the Base Monthly Rent set forth in Article 1 (SUMMARY OF BASIC LEASE PROVISIONS), but only until such time as the parties determine the Renegotiated Rent pursuant to Section 4.3 (RENT RATE RENEGOTIATION), below, following which time "A" shall then equal such Renegotiated Rent;

"B" equals the monthly Consumer Price Index, as hereinafter defined, for the month of __________ immediately preceding the commencement of the COLA Period for which the rent is being adjusted; and

"C" equals the monthly Consumer Price Index, as hereinafter defined, for the month of __________ immediately preceding the commencement of the Term; provided, however, that following renegotiation of the rent pursuant to Section 4.3 (RENT RATE RENEGOTIATION), below, "C" shall equal the Consumer Price Index for the month of ________ immediately preceding such rent renegotiation.

4.2.1 Consumer Price Index. The consumer price index which shall be used as the source for the Consumer Price Index numbers shall be that published by the United States Department of Labor, entitled United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index for the Los Angeles- Anaheim-Riverside Area, all items of the index entitled "Consumer Price Index for All Urban Consumers" for the Los Angeles- Anaheim-Riverside Area (1982-84 = 100). In the event that such index is not published for the Los Angeles-Anaheim-Riverside Area, then another comparable index or source of such information generally recognized as authoritative shall be substituted by agreement of the parties. If the parties should not agree, such source of information shall be determined by arbitration pursuant to the provisions of the California Code of Civil Procedure.

4.3 Rent Rate Renegotiation. For each five year period of this Lease or any portion thereof, commencing five years from the Commencement Date, the Base Monthly Rent for the first twelve months, or any portion thereof, of any five-year period, shall be adjusted, as applicable, to the higher of (i) the Base Monthly Rent set forth in Article 1 (SUMMARY OF BASIC LEASE PROVISIONS) of the Lease, or (ii) fair market rent ("Fair Market Rent") for the Premises as of expiration of the preceding five-year period, calculated as follows:

(a) Commencing one hundred eighty (180) days prior to the applicable Rent Adjustment Date, County and Lessee shall attempt to agree upon the Fair Market Rent. If the parties are unable to agree upon the Fair Market Rent within sixty (60) days thereafter, then each party shall designate, by written notice to the other party within ten (10) days after expiration of said 60-day period, a real estate appraiser with at least five (5) years' full-time commercial appraisal experience in the area in which the Premises are located to appraise and determine the monthly Fair Market Rent for the Premises for the first twelve months of the next five-year period. If either party fails to designate an appraiser, one appraiser shall determine the Fair Market Rent.

(b) If two appraisers are designated, the two shall promptly meet in an attempt to set the Fair Market Rent. If the two appraisers are unable to agree within twenty (20) days after designation of the second appraiser, they shall appoint a third appraiser meeting the qualifications stated above within ten (10) days after expiration of the twenty-day period provided to the two appraisers to set the Fair Market Rent. If the two appraisers are unable to agree on a third appraiser, either of the parties to this Lease, by giving ten (10) days' written notice to the other party, can apply to the then president of the Real Estate Board of San Diego County for the selection of a third appraiser. Each party shall pay the fee of the appraiser it designates and one-half (1/2) the cost of the third appraiser. Within twenty (20) days after the selection of the third appraiser, a majority of the appraisers shall set the Fair Market Rent. If a majority of the appraisers are unable to agree, then the average of the three appraisals shall be the Fair Market Rent; provided, however, if the low appraisal is more than five percent (5%) lower and/or if the high appraisal is more than five percent (5%) higher than the middle appraisal, then the low appraisal and/or high appraisal shall be disregarded in averaging the appraisals.

(c) In determining the Fair Market Rent, the appraisals shall evaluate the monthly amount which the Premises could be expected to return to the County if offered for lease on the open market under normal circumstances, giving due consideration to other properties located in the immediate geographic vicinity of the Premises, desirability and utility of the Premises and similar relevant matters. Improvements placed upon the Premises by the Lessee since the Commencement Date of this Lease shall not be considered in arriving at the Fair Market Rent. After the Fair Market Rent has been set, the appraisers shall immediately notify the parties in writing.

(d) If the parties cannot arrive at the Fair Market Rent through use of the foregoing procedure, or should either party fail to perform as required herein, the question shall thereafter be submitted to arbitration by notice to the other party. The judgment in any such arbitration may be entered in any court having jurisdiction and shall be final and binding between the parties. The arbitration shall be conducted in accordance with California Code of Civil Procedure § 1280, et seq.

4.4 Additional Rent. Lessee shall pay, as Additional Rent, all sums of money required to be paid pursuant to the terms of this Lease which are not payable as Base Monthly Rent, collectively referred to herein as "Additional Rent." If such amounts or charges are not paid at the time provided in this Lease, they shall nevertheless be collectible as Additional Rent with the next installment of Base Monthly Rent thereafter falling due, but nothing herein contained shall be deemed to suspend or delay the payment of any amount of money or charge at the time the same becomes due and payable hereunder or to limit any other remedy of County. All amounts of Base Monthly Rent and Additional Rent payable in a given month shall be deemed to comprise a single rent obligation of Lessee to County.

4.5 Additional Rent for County's Equity. As compensation for the present value of County's reversionary interest in certain improvements on the leasehold ("County's Equity"), Lessee shall pay Additional Rent to County for County's Equity in the amount of ______, due within 30 days the Effective Date as specified in section 1.5 (effective date) **[OPTION: AMORTIZED OVER A PERIOD]** to be paid in ___ monthly payments of $____, principal and interest. County agrees to amortize full amount of said Additional Rent over ___ equal monthly installments of ___, including annual interest of 9%. Said monthly installments shall begin _______ and end _________.

[Option]
4.5.1 Equity Payoff Schedule. Notwithstanding anything implied to the contrary above, Lessee may prepay in full at any time prior to January 1, 2016 the then outstanding principal balance, as shown in Exhibit "J" "COUNTY'S EQUITY PAYOFF SCHEDULE", of said Additional Rent described in 4.5 herein, and following said prepayment, the Additional Rent described herein will cease to be an obligation payable to County beginning with the next calendar month following said prepayment. Lessee may not partially prepay the Additional Rent described in 4.5 herein.

4.6 Delivery of Rent Payments. All rent due under this Lease shall be made payable to the County of San Diego, and shall be considered paid when delivered to:

Controller Branch Office-Cashier
5201 Ruffin Road, Suite B
San Diego, California 92123-1677

provided, however, that County may, at any time, by written notice to Lessee, designate a different address to which Lessee shall deliver the rent payments. County may, but is not obligated to, send monthly rent invoices to Lessee.

4.7 Failure to Pay Base Monthly Rent or Additional Rent; Late Charge.

(a) If Lessee fails to pay rent due hereunder within fifteen (15) days of the time it is due and payable, such unpaid amounts shall bear interest at the rate of ten percent (10%) per year from the date due to the date of payment, computed on the basis of monthly compounding with actual days elapsed compared to a 360-day year. In addition to such interest, the late payment by Lessee of any monthly rental due hereunder will cause County to incur certain costs and expenses not contemplated under this Lease, the exact amount of which costs being extremely difficult or impracticable to fix. Such costs and expenses will include, without limitation, administrative and collection costs, and processing and accounting expenses. Therefore, if any such monthly rental is not postmarked or received by County from Lessee within fifteen (15) days of the Due Date, or the first business day thereafter, Lessee shall immediately pay to County a late charge equal to five percent (5%) of such overdue amount. This late charge represents a reasonable estimate of such costs and expenses and is fair compensation to County for its loss caused by Lessee's nonpayment. Should Lessee pay said late charge but fail to pay contemporaneously therewith all unpaid amounts of rent due hereunder, County's acceptance of this late charge shall not constitute a waiver of Lessee's default with respect to such nonpayment by Lessee nor prevent County from exercising all other rights and remedies available to County under this Lease or under law.

(b) In the event of a dispute between the parties as to the correct amount of Base Monthly Rent or Additional Rent owed by Lessee, County may accept any sum tendered by Lessee in payment thereof, without prejudice to County's claim as to the proper amount of rent owing. If it is later determined that Lessee has not paid the full amount of rent owing, the late charge specified herein shall apply only to that portion of the rent still due and payable from Lessee. Notwithstanding any provision of this Section to the contrary, however, County's Lease Administrator may waive any late charge or interest upon the written recommendation of the Airports Director.

SAN DIEGO COUNTY AIRPORTS LEASING PRACTICES

The leasing of County Airport land is regulated and influenced by State and Federal Law including the policies of the Federal Aviation Administration (FAA), the County Administrative Code, formal Policies adopted by the County Board of Supervisors (Board), input from community advisory boards, and by past decisions of the Board. This paper summarizes current Airport leasing practices.

Authority to Lease. All leases in excess of ten years and leases where the rent exceeds $5,000 per month require the approval of the Board of Supervisors. The Board must also approve all amendments to such leases. Certain authority over leases is granted by the Board to the Director, Department of General Services (Lease Administrator). This delegated authority includes the approval of leases for terms not exceeding ten years and where the rent does not exceed $5,000 per month. The Lease Administrator may also consent to lease assignments, financial encumbrances and subleases, except where extraordinary circumstances may warrant review and approval by the Board. The Manager, Airports/Transit (Airports Director) may consent to short-term airport use permits, where the term does not exceed one year.

Land Uses. Except for emergency landing strips in the rural East County, master plan or community plan documents, in conjunction with environmental impact report documents, have been developed, and are periodically updated, for all County Airports. These are reviewed and approved by the FAA, the San Diego Association of Governments (SANDAG) which is the regional airport authority, local cities having jurisdiction, and the Board, following a public review and input process. The master plan or community plan then serves to guide Airports staff and the Board in making land use leasing decisions. The lease document (described in more detail, below) will specify allowed uses of airport land and any restrictions on use which may apply.

Competitive Lease Proposals. It is generally the County's policy to solicit competitive proposals whenever a County property is available for lease to private parties. County Airport property may, however, be leased without seeking competitive proposals. In practice, this is only done where there is a surplus of airport land available for lease, and when not more than one party has expressed an interest in leasing a particular parcel of land. In some instances, lessees leasing land which adjoins a vacant parcel will be given the first opportunity to lease the adjoining parcel, but again, only when there has been no expression of interest from third parties.

Length of Lease Term. To allow the County the greatest flexibility in making land use decisions over time, lease terms are generally limited to the shortest term possible. When necessary, fixed-term leases are granted for the minimum number of years adequate to allow a lessee to amortize, and receive a reasonable return on, the lessees investment in leasehold improvements. Historically, Airports has granted one year of lease term for each $5,000 invested, per acre of leased land, with a maximum term for aviation leases set at 30 years. Accordingly, to qualify for a thirty-year term on a 5-acre parcel, a lessee would have to invest $750,000 in approved leasehold improvements ($5,000 x 5 acres x 30 years = $750,000). Leases where there is no investment by the lessee are usually kept on a month-to-month basis. The $5,000 per acre, per year formula for determining the length of lease term is a minimum requirement. Virtually all new projects constructed on County aviation land within the past ten years have exceeded this minimum investment requirement. Lease terms for industrial-zoned properties, and other non-aviation use properties, may have different investment requirements and longer or shorter maximum lease terms available to conform with common industry practices.

Fair Market Rental. It is a policy of the Board of Supervisors and a requirement of the FAA that County Airports receive fair market value when leasing its airport land. Achieving fair market value usually starts with an appraisal requisitioned by Airports, followed by negotiations between Airports staff and the lessee or prospective lessee to reach agreement. The County typically negotiates for a rental based on a 9% return on the appraised value of the land. Restaurants, hotels, golf driving ranges and certain other land uses, usually result in rentals based on a percentage of the lessee's gross income, as this is customary for such leases. Periodic rental adjustments based on reappraisal are typically negotiated each five years for a long-term lease, and not less than every nine years by policy of the Board. Rental Adjustments based on the Consumer Price Index are usually required between the negotiated rental adjustments.

Lease Contracts and Legal Review. County lease contracts are intended to transfer to the lessee the liabilities associated with possession and control of real property, including compliance with all federal, state and local laws and regulations, including those pertaining to the use, storage and disposal of hazardous materials. Standard Airport lease contracts are written and/or approved by County Counsel. Lease language is periodically updated to reflect changes in real estate law and to meet changing economic and other risks associated with the ownership of land. During the term of a lease, lease amendments may be agreed to between the parties to effect changes to the rent or other economic lease provisions, or to update antiquated lease language which no longer protects one or both of the parties as originally intended.

Construction of Leasehold Improvements. County Airport leases typically require the construction of leasehold improvements, which will be owned by the lessee during the term and which will revert to the ownership of the County at the end of the term. The minimum parcel size, height restrictions, lot-line set backs, parking requirements, building design, quality of construction, and other requirements are controlled by the County Airports Development Standards and by County or city building code requirements. Performance bonds will be required when in the opinion of the County this is prudent to guarantee the timely construction of required leasehold improvements.

Lease Extensions and Equity. It is the practice of County Airports to negotiate for lease extensions only when a surplus of land is available for lease, and when there has been no expression of interest by third parties in bidding on the particular parcel of land covered by the expiring lease. Typically, all County aviation leases provide that at the end of the lease the improvements will become the property of the County regardless of who originally installed the improvements. If a lease is extended prior to the expiration of its term, the County requires payment for the present value of its reversionary interest in the leasehold improvements. This interest is referred to as Equity. The amount of equity is based on appraising the value of the improvements as of the end of the lease, and discounting that value to a present value. A variety of appraisal techniques may be used, and negotiation may ultimately be involved to arrive at a value acceptable to both the County and the lessee. The County will permit an amortization of the equity it is owed, with interest, over a period of months not to exceed approximately 50% of the extended lease term. The purchase of the County's equity interest by the lessee, whether by cash payment or amortization, may be counted as part of the investment requirement in establishing the length of extended term, as discussed above under Length of Lease Term.

Attachment 12: County Airports Aviation Agreements

Lessee	Airport	Contract Number	Termination Date	Next Negotiated Rental Adjustment	Acres	Rent	Rate per Acre per Month	
Chapman, James	Borrego	75741R	9/30/04		1	$ 300.00	$ 300.00	
CoPan, LLC	Borrego	75653R	1/31/33	2/1/2008	.62	$ 157.30	$ 254.00	
Devine, Thomas	Borrego	75740R	10/9/04		1	$ 300.00	$ 300.00	
Geantil, Thomas	Borrego	75739R	10/9/04		1	$ 300.00	$ 300.00	
Johnson, Russell	Borrego	75742R	9/30/04		1	$ 300.00	$ 300.00	*
Strasbaugh, Larry Howard	Borrego	16252R	5/31/10	6/1/2005	0.814	$ 175.04	$ 215.03	
Watkins, John	Borrego	75727R	1/6/34	1/7/2009	1.06	$ 300.00	$ 283.02	
Aircraft Hangar Management	Fallbrook	75673R	2/28/33	3/1/2008	5.9	$ 1,799.74	$ 305.04	
Fallbrook Air Service, Inc.	Fallbrook	75244R	10/23/18	6/16/02	3.7	$ 490.65	$ 132.61	
Fallbrook Flyers, LLC	Fallbrook	75586R	6/30/32	7/1/2012	0.976	$ 292.80	$ 300.00	
L18 Airpark Corporation	Fallbrook	75672R	5/31/33	7/1/08	4.11	$ 1,233.00	$ 300.00	*
Public Services Group Helopad	Fallbrook	MUFA1	6/30/09		0.376	$ 340.48	$ 905.53	**
Aircraft Storage Spaces	Gillespie	75623R	12/31/32	7/1/2010	10.07	$ 4,656.77	$ 462.44	
Breise, Wayne	Gillespie	71999R	9/30/27	10/1/2010	11.24	$ 5,109.96	$ 454.62	
Classic Aircraft Hangars	Gillespie	75169R	3/31/29	10/1/2010	4.5	$ 2,080.98	$ 462.44	
El Cajon Flying Service	Gillespie	71629R			7.89	$ 3,648.66	$ 462.44	*
El Cajon Flying Service	Gillespie	75505R	9/30/22	10/1/2010	7.14	$ 3,301.83	$ 462.44	
Gillespie Air Center	Gillespie	11281R	2/28/30	3/1/2010	5.38	$ 2,390.82	$ 444.39	
Gillespie Field Partners, Inc.	Gillespie	11280R	2/28/07		6.18	$ 2,783.72	$ 450.44	
Golden State Aviation	Gillespie	11278R	2/28/07	3/1/2010	1.725	$ 801.67	$ 464.74	
La Jolla Investment Company	Gillespie	75099R	10/31/32	10/1/2010	11.18	$ 5,170.08	$ 462.44	*
Royal Jet, Inc.	Gillespie	75040R	5/31/28	6/1/2010	5.31	$ 3,428.58	$ 645.68	
Safari Aviation	Gillespie	71101R	7/31/18	3/1/2010	4.73	$ 2,187.34	$ 462.44	
Safari Aviation	Gillespie	75091R	7/31/28	8/1/2010	5.23	$ 2,418.57	$ 462.44	
San Diego Aerospace Museum	Gillespie	71567R	9/30/17	10/1/2007	3.26	$ 1.00	$ 0.31	
Sheriffs Department	Gillespie	MUGF4	10/31/40	11/1/2010	3.59	$ 1,628.42	$ 453.60	

*per hanger per month
**Includes improvements

Lessee	Airport	Contract Number	Termination Date	Next Negotiated Rental Adjustment	Acres	Rent	Rate per Acre per Month
Sky Harbor	Gillespie	70664R	12/31/15	1/1/2010	5.64	$ 2,538.00	$ 450.00
Sky Harbor	Gillespie	71276R	7/31/20	8/1/2010	5.5	$ 2,475.00	$ 450.00
Southern Cal Aircraft Repair	Gillespie	75658R	2/28/33	1/1/2010	2.67	$ 1,202.68	$ 450.44
Civic Helicopters	Palomar	17088R	3/31/11	4/1/2006	1.43	$ 2,129.48	$ 1,489.15
Jet Source, Inc.	Palomar	75758R	12/31/33	1/1/2009	6.91	$13,046.00	$ 1,887.99
Magellan Aviation	Palomar	71089R	12/31/34	1/1/2010	11.25	$18,562.50	$ 1,678.87
Magellan Aviation	Palomar	71512R	12/31/34	1/1/2010	4.93	$ 7,724.67	$ 1,566.87
Ocean Air Charters, Inc.	Palomar	70757R	3/31/11	4/1/2006	2.52	$ 3,884.57	$ 1,541.50
Palomar Airport Center 1	Palomar	75627R	6/10/33	6/11/2008	0.48	$ 696.00	$ 1,450.00
Palomar Airport Center 2	Palomar	75628R	6/10/33	6/11/2006	6.06	$ 8,787.00	$ 1,450.00
Palomar Airport Center 3	Palomar	75629R	5/31/03	6/1/2006	3.09	$ 3,429.90	$ 1,110.00
Palomar Airport Center 4	Palomar	75630R	12/31/32	1/1/2008	3.37	$ 3,789.67	$ 1,124.53
Palomar Airport Center 5	Palomar	75631R	5/31/33	6/1/2008	1.82	$ 2,002.00	$ 1,100.00
Palomar Airport Center Tie down	Palomar	PA-260R1	5/31/05		0.92	$ 1,400.00	$ 1,521.74
Western Flight, Inc.	Palomar	75728R	8/15/33	8/16/2008	3.41	$ 5,626.50	$ 1,650.00
Western Flight, Inc.	Palomar	75729R	8/15/33	8/16/2008	4.12	$ 4,532.00	$ 1,100.00
Western Flight, Inc.	Palomar	75730R	8/15/33	8/16/2008	0.45	$ 742.50	$ 1,650.00
California Department of Forestry	Ramona	75159R	6/30/32		8.40	$23,428.99	$ 232.43
Chuck Hall Aviation	Ramona	75593R	7/31/32	8/1/2007	8.01	$ 3,484.35	$ 435.00
Cruiseair Aviation	Ramona	75482R	11/6/31	11/7/2006	9.93	$ 3,887.60	$ 391.50
Pacific Executive Aviation	Ramona	75704R	10/31/26	7/1/2007	9.04	$ 3,932.40	$ 435.00

*per hangar per month

**Includes improvements